

**PROCEEDING BEFORE THE HONORABLE MICHAEL D. RILEY
INSURANCE COMMISSIONER OF THE
STATE OF WEST VIRGINIA**

**IN RE:
SAFE INSURANCE COMPANY
ADMINISTRATIVE PROCEEDING
16-MAP-02003**

**AGREED ORDER ADOPTING REPORT OF
MARKET CONDUCT EXAMINATION AND DIRECTING
CORRECTIVE ACTION**

NOW COMES, The Honorable Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the Report of Market Conduct Examination for the statutory examination of Safe Insurance Company hereinafter referred to as "Company" for the examination period beginning and ending June 30, 2016 based upon the following findings, to wit:

PARTIES

1. The Honorable Michael D. Riley, is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing, among other duties, the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.
2. Company operates under the provisions of Chapter 33, of the West Virginia Code as Safe Insurance Company.
3. Company is domiciled in the State of West Virginia and is licensed as a Farmer's Mutual Fire Insurance Company under the provisions of Article 22, Chapter 33 of the West Virginia Code.
4. The Statutory Market Conduct Examination was instituted pursuant to the

statutory obligation of the Insurance Commissioner's Office to examine each West Virginia domestic insurance company every five (5) years.

The purpose of this Statutory Examination was to determine Company compliance with West Virginia Insurance laws relating to treatment of policyholders and claimants and the examination information contained in the Market Conduct Report should serve only these purposes. The conclusions and findings of the Market Conduct Examination are public record.

FINDINGS OF FACT

1. The examination was conducted in accordance with West Virginia Code Section 33-2-9(c) by examiners duly appointed by the West Virginia Offices of the Insurance Commissioner. The examination fieldwork began on August 15, 2016, and concluded on November 9, 2016.

2. The Statutory Market Conduct Examination reviewed and tested Company Operations and Management, Complaint Handling, Underwriting, Rating, Producer Licensing and Claims. The examination tested company compliance with selected standards contained in the National Association of Insurance Commissioners' (NAIC) 2015 *Market Regulation Handbook* and standards approved by the Insurance Commissioner.

3. A total of thirty-six (36) standards were tested during this examination. The Company was found to be compliant with thirty-three (33) and predominantly compliant with three (3).

4. The Company was predominantly compliant with W. Va. Code R. §114-14-3 regarding proper documentation of files such that pertinent events can be reconstructed.

5. The Company was predominantly compliant with W.Va. Code § 33-12-18 regarding agents being properly appointed.

6. The Company was predominantly compliant with W.Va. Code R. §114-14-6.17 pertaining to providing the Insurance Commissioner's contact information on denial letters.

7. On or about November 29, 2016, the examiner filed with the Insurance Commissioner, pursuant to West Virginia Code Section 33-2-9(j)(2), a Report of Market Conduct Examination.

8. Company waives notice of administrative hearing, any and all rights to an administrative hearing, and to judicial review of this matter.

9. Any Finding of Fact that is more properly a Conclusion of Law is hereby adopted as such and incorporated in the next section.

CONCLUSIONS OF LAW

1. The Insurance Commissioner has jurisdiction over the subject matter and the parties to this proceeding.

2. This proceeding is pursuant to and in accordance with W. Va. Code §33-2-9.

3. The Insurance Commissioner is charged with the responsibility of verifying continued compliance with the West Virginia Code and the West Virginia Code of State Rules by Company as well as all other provisions of regulation that Company is subjected to by virtue of its Certificate of Authority to operate in the State of West Virginia.

4. The Company was compliant or predominantly compliant with all the standards tested.

5. There does not appear to be any intentional misconduct exhibited by Company in this examination findings and scope.

6. Any Conclusion of Law that is more properly a Finding of Fact is hereby incorporated as such.

ORDER

Pursuant to West Virginia Code Section 33-2-9(j)(3)(A), following the review of the Report of Market Conduct Examination, the examination work papers, and Company response thereto, the Insurance Commissioner and Company have agreed to enter into this Agreed Order adopting the Report of Market Conduct Examination. The Parties have further agreed to the imposition of an administrative penalty of Three Hundred Seventy-Five Dollars (\$375.00) against Company as set forth below.

It is accordingly **ORDERED** as follows:

(A) The Report of Market Conduct Examination of Company for the period ending June 30, 2016 is hereby **ADOPTED** and **APPROVED** by the Insurance Commissioner.

(B) It is **ORDERED** that Company will pay an administrative penalty in the amount of three hundred seventy-five dollars (\$375.00) for failing to comply with the Statutes, Rules and Regulations of the State of West Virginia as detailed in the Report of Market Conduct Examination. Said payment shall be made within thirty (30) days of the date the Insurance Commissioner enters this Order.

(C) It is further **ORDERED** that Company shall continue to monitor its Compliance with W. Va. Code §33-12-18, W. Va. Code R. §114-14-3, and W.Va. Code R. §114-14-6.17.

(D) It is further **ORDERED** that within thirty (30) days of the next regularly

scheduled meeting of its Board of Directors, Company shall file with the West Virginia Insurance Commissioner, in accordance with West Virginia Code Section 33-2-9(j)(4), affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report of Market Conduct Examination and a copy of this ORDER ADOPTING REPORT OF MARKET CONDUCT EXAMINATION AND DIRECTING CORRECTIVE ACTION.

(E) It is further **ORDERED** that Company shall ensure compliance with the West Virginia Code and the Code of State Rules. Company shall specifically cure those violations and deficiencies identified in the Report of Market Conduct Examination.

(F) It is further **ORDERED** that **COMPANY SHALL FILE** a Corrective Action Plan which will be subject to the approval of the Insurance Commissioner. The Corrective Action Plan shall detail Company changes to its procedures and/or internal policies to ensure compliance with the West Virginia Code and incorporate all recommendations of the Insurance Commissioner's examiners and address all violations specifically cited in the Report of Market Conduct Examination. The Corrective Action Plan outlined in this Order must be submitted to the Insurance Commissioner for approval within thirty (30) days of the entry date of this Agreed Order. Company shall implement reasonable changes to the Corrective Action Plan if requested by the Insurance Commissioner within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan. The Insurance Commissioner shall provide notice to Company if the Corrective Action Plan is disapproved and the reasons for such disapproval within thirty (30) days of the Insurance Commissioner's receipt of the Corrective Action Plan.

(G) It is finally **ORDERED** that all such statutory notices, administrative hearings and appellate rights are herein waived concerning this Report of Market Conduct

Examination and Agreed Order. All such rights are preserved by the Parties regarding implementation or further action taken on such Order by the Commissioner against Safe Insurance Company

Entered this 12 day of January, 2018

M. L. Riley
The Honorable Michael D. Riley
Insurance Commissioner

REVIEWED AND AGREED TO BY:

On behalf of the INSURANCE COMMISSIONER:

Jeffrey C. Black
Jeffrey C. Black, Associate Counsel
Attorney Supervisor

Dated: 1/11/17

On Behalf of SAFE INSURANCE COMPANY

By: Frank Norton JR
Print Name

Its: President

Signature: Frank Norton JR

Date: 1/11/17

Report of Market Conduct Examination

As of June 30, 2016



Safe Insurance Company

1017 Sixth Avenue
Huntington, WV 25701

NAIC COMPANY CODE 15415
Examination Number 16-Reg- 02297

TABLE OF CONTENTS

FOREWORD	2
EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION	3
HISTORY AND PROFILE	3
METHODOLOGY.....	4
A. Company Operations/Management.....	4
B. Complaint Handling	8
C. Marketing & Sales.....	10
D. Producer Licensing.....	11
E. Policyholder Service.....	13
F. Underwriting & Rating	14
G. Claims.....	20
SUMMARY OF RECOMMENDATIONS.....	25
EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT.....	26
EXAMINER'S AFFIDAVIT.....	27

November 29, 2016

The Honorable Michael D. Riley
West Virginia Insurance Commissioner
900 Pennsylvania Avenue
Charleston, West Virginia 25305

Dear Commissioner Riley:

Pursuant to your instructions and in accordance with W.Va. Code §33-2-9, an examination has been made as of June 30, 2016 of the business affairs of

SAFE INSURANCE COMPANY

1017 Sixth Avenue
Huntington, WV 25701

Hereinafter referred to as the "Company." The following report of the findings of this examination is herewith respectfully submitted.

FOREWORD

This is a report by test of company compliance with selected Standards contained in the National Association of Insurance Commissioners' (NAIC) *2015 Market Regulation Handbook* ("Handbook") and Standards approved by the West Virginia Offices of the Insurance Commissioner ("WVOIC") which are based on applicable West Virginia statutes and administrative rules, as referenced herein. Testing is based on guidelines contained in the Handbook. All tests applied are included in this report.

"Company" as used herein refers to Safe Insurance Company. "WVOIC" as used herein refers to the West Virginia Offices of the Insurance Commissioner. "W.Va. Code St. R." as used herein refers to the West Virginia Code of State Rules. "W.Va. Code" as used herein refers to the West Virginia Code Annotated.

EXECUTIVE SUMMARY

The examination fieldwork began August 15, 2016 and concluded on November 9, 2016. A total of thirty-six (36) standards were reviewed during this examination. Of these thirty-six (36) standards, the Company was compliant in thirty-three (33), predominantly compliant in three (3) standard (D2, G5, and G9).

The major areas of concern are listed below:

- Standard D2: Four (4) new business policies applications were signed by licensed agents who were not appointed by Safe Insurance Company. There were actually three agents that were not appointed. One of the three submitted two applications.
- Standard G5: The Company did not fully document a denied claim with proper retention of the denial letter, or properly noting the verbal denial.
- Standard G9: One (1) denial letter did not give the option of contacting the Commissioner's Office and provided with its mailing address, telephone number, and website address.

The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the West Virginia insurance laws and regulations.

SCOPE OF EXAMINATION

Market conduct examiners with the WVOIC reviewed certain business practices of Safe Insurance Company. W. Va. Code §33-2-9 empowers the Commissioner to examine any entity engaged in the business of insurance. The findings in this report, including all work products developed in producing it, are the sole property of the WVOIC.

The basic business areas that were reviewed and tested under this examination were:

- Company Operations and Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

Each business area has standards that the examination measured. Some standards have specific statutory guidelines, others have specific company guidelines, and yet others have contractual guidelines.

The focus of the examination was on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This included an analysis of how the Company communicates its instructions and intentions throughout its operations, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the result findings of the measurement and monitoring activities. The examination also determined whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus was then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas were tested to verify the Company is in compliance with West Virginia statutes and rules. The examiners may not have discovered every unacceptable or non-compliant activity in which the Company is engaged. The failure to identify, comment on, or criticize specific Company practices does not constitute an acceptance of the practices by the West Virginia Offices of the Insurance Commissioner or its' designee.

HISTORY AND PROFILE

Safe Insurance Company was formed in 1911, by West Virginians for West Virginians and continues to operate as one of the oldest insurance companies in West Virginia. Safe Insurance Company is a Farmers' Mutual Insurance Company domiciled in and incorporated under the laws of West Virginia. Safe underwrites property and casualty insurance in both the personal and commercial lines of insurance, writing coverage's solely in West Virginia. Safe utilizes West Virginia Independent Agents to market our products with a distribution network consisting of approximately 50 independent agencies and a general agency. The predominant portion of the Company's business is in personal lines with policies written on specified peril forms and written

for Actual Cash Value indemnification. Safe Insurance Company does not participate in any off-balance sheet arrangements, high yield financing, or highly leveraged transactions.

Safe's Home Office was originally located in Harrisville, West Virginia, the county seat of Ritchie County. In 1987 Safe's Home Office was moved to its present location in Huntington, West Virginia. The Company began as an assessable mutual insurer writing fire and lightning coverage primarily for farmers. Safe evolved and eventually became a non-assessable mutual insurer and today offers a variety of property and casualty insurance products to meet the needs of West Virginians. Safe offers multiple products tailored specifically to meet niche exposures and risks. Safe Insurance Company is regulated under Chapter 33, Article 22 of the West Virginia Insurance Code and is one of the original members of the West Virginia Association of Mutual Insurance Companies. The Company's premium written for 2015 was \$3,155,890.00

METHODOLOGY

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") and West Virginia's applicable statutes and regulations. The examiners conducted file reviews and interviews of company management. This examination report is a report by test, rather than a report by exception, and all standards tested are described and the results indicated.

Tests designed to measure the level of compliance with West Virginia's statutes, rules and regulations were applied to the files. All tests are described and the results displayed in this report.

In the results tables a "pass" response indicated compliance and a "fail" response indicates a failure to comply. The results of each test applied to a sample are reported separately.

The examiners used the NAIC standards of 7% error ratio on claims tests (93% compliance rate) and 10% error ratio on all other tests (90% compliance rate) to determine whether or not an apparent pattern or practice of being compliant or non-compliant existed for any given test. Except as otherwise noted, all tests were conducted via random sample taken from a given population. For certain sections of the underwriting standards, the examiners reviewed a sample of twenty-five (25) new business policies and having found no violations, did no further review.

A. COMPANY OPERATIONS/MANAGEMENT

The evaluation of standards in this business area is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates and is not based on sampling techniques, but rather the Company's structure. This review is not intended to duplicate a financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise. Well-run companies generally have processes that are similar in

structure. While these processes vary in detail and effectiveness from company-to-company, the absence of them or the ineffective application of them is often reflected in failure of the various standards tested throughout the examination. The processes usually include:

- A planning function where direction, policy, objectives, and goals are formulated;
- An execution or implementation of the planning function elements;
- A measurement function that considers the results of the planning and execution; and
- A reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

Standard A1: The Company has an up-to-date, valid internal or external audit program. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 1)

Test Methodology:

- Does the Company have an internal and external audit program to detect structural problems before they occur? [W. Va. Code §§33-3-14 and 33-33-1]

Examiner Observations: The officers directly participate in activities on a daily basis due to the smaller size of the Company. They review open claims and amounts of reserves, monitor and review all outsourced claims adjusting. A proxy and audit committee was formed. The officers participated in the overview of the new Britecore computer system. Britecore itself has an independent service audit report.

Examiner Recommendations: None

Results: Compliant

Standard A3: The Company has anti-fraud initiatives in place that are reasonable calculated to detect, prosecute and prevent fraudulent insurance acts. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 3)

Test Methodology:

- Does the Company have any procedural manuals or guides and antifraud plans?
- Does the Company report fraudulent activities of which it becomes aware? [W. Va. Code §33-41-5]

Examiner Observations: All claims are handled by the Company claim adjusters, outside contractors or the officers of the Company and any potential acts of fraud are reported to the President of the Company and the West Virginia Offices of the Insurance Commissioner. A fraud memo has been issued to all employees. The Company had no potential acts of fraud and the examiner found no potential instances of fraud.

Examiner Recommendations: None

Results: Compliant

Standard A4: The Company has a valid disaster recovery plan. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 4)

Test Methodology:

- Does the Company have a disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster?

Examiner Observations: The Company's computer records are backed up and copies are maintained off site. In the event of a disaster or other hardship, Company records can be accessed remotely. The BriteCore system was tested in July 2015.

Examiner Recommendations: None

Results: Compliant

Standard A7: Records are adequate, accessible, consistent and orderly and comply with state record retention. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 7)

Test Methodology:

- Are the records adequate and accessible as required by W. Va. Code St. R. §114-15-4? [W. Va. Code §33-2-9]

Examiner Observations: Files are retained in accordance with state record retention requirements. Policy files provided contained all pertinent information from which to make an underwriting decision. No exceptions were noted.

Examiner Recommendations: None.

Results: Compliant

Standard A8: The Company is licensed for the lines of business that are being written. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 8)

Test Methodology:

- Are the Company's operations in conformance with the Company's certificate of authority?

Examiner Observations: The Company's certificate of authority was reviewed and writings were compared with authorized lines and the NAIC annual statement. The Company's current forms which are in use were reviewed. No exceptions were noted.

Examiner Recommendations: None

Results: Compliant

Standard A9: The Company cooperates on a timely basis with examiners performing the examinations. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 9)

Test Methodology:

- Did the Company provide records in a timely basis? [W. Va. Code §33-2-9 and W. Va. Code St. R. §114-15-4.9(a)]

Examiner Observations: The Company was cooperative and the examination proceeded in a cordial atmosphere. Data provided was responsive and timely.

Examiner Recommendations: None

Results: Compliant

Standard A12: The Company has policies and procedures to protect the privacy of non-public personal information relating to its customers, former customers, and consumers that are not customers. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 12)

Test Methodology:

- Does the Company provides adequate protection of information it holds concerning its policyholders and minimize any improper intrusion into the privacy of applicants and policyholders? [W. Va. Code St. R. §§114-57 and 114-62]

Examiner Observations: The Company has procedures for the protection of and privacy of applicants and policyholders. Additionally, a West Virginia Privacy Statement is supplied to all applicants and policyholders. The Company's privacy notice states "It is not our policy to share personal information with unaffiliated third parties, except as described in the policy and prior to sharing personal financial information with unaffiliated third parties we will give affected customers an opportunity to direct that such information not be disclosed.

Examiner Recommendations: None

Results: Compliant

Standard A13: The Company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information. (2015 NAIC Market Regulation Handbook Chapter 16, § A Standard 13)

Test Methodology:

- Does the Company provides adequate protection of information it holds concerning its policyholders and minimize any improper intrusion into the privacy of applicants and policyholders? [W. Va. Code St. R. §§114-57 and 114-62]

Examiner Observations: The Company has adequate protections and safeguards. They have a Privacy Policy and procedures for employees. No exceptions were noted. All policyholders are provided with a privacy notice.

Examiner Recommendations: None

Results: Compliant

B. COMPLAINT HANDLING

Evaluations of the standards in this business area are based on company responses to various information requests and the review of complaint files at the Company. In this business area, "complaints" include "grievances." W.Va. Code §33-11-4(10) requires the Company to "...maintain a complete record of all the complaints which it has received since the date of its last examination." The statute also requires that, "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint," the definition of a complaint is, "...any written communication primarily expressing a grievance."

Standard B1: All complaints are recorded in the required format on the Company complaint register. (2015 NAIC Market Regulation Handbook Chapter 16, § B Standard 1)

Test Methodology:

- Is the Company recording all complaints received directly from the consumer as well as the Commissioner's Office?
- Is the Company recording all complaints in a regulated complaint register? [W. Va. Code §33-11-4(10) and W. Va. Code St. R. 114-15 et. seq.]

Examiner Observations: The Company maintains an electronic log of complaints in accordance with the requirements of the Insurance Commissioner. The company received four (4) complaints from the WVOIC during the examination period. The examiners did not observe any communications from policyholders or claimants that could be construed as complaints during the policy or claims file reviews.

Examiner Recommendations: None.

Results: Compliant

Table B1 Results: Complaints Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Complaints	4	4	0	4	0	90	100

Standard B2: The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders. (2015 NAIC Market Regulation Handbook Chapter 16, § B Standard 2)

Test Methodology:

- Does the Company have complaint procedures in place, and are they sufficient to satisfactorily handle complaints?
- Does the Company have procedures in place to track responses to complaints?

Examiner Observations: Insured has procedures in place. The process is to begin processing complaints within twenty-four hours and to provide a response within fifteen working days as required.

Examiner Recommendations: None

Results: Compliant

Standard B4: The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules, and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § B Standard 4)

Test Methodology:

- Is the Company maintaining adequate documentation of complaints, as required by W. Va. Code §33-11-4(10) and W. Va. Code St. R. §114-14-5?
- Is the Company responding to complaints in a timely manner as required? [W. Va. Code St. R. §114-14-5 et seq]

Examiner Observations: The Company had four (4) complaints during the examination period. Each was properly documented and they responded to the WVOIC in a timely manner.

Examiner Recommendations: None

Results: Compliant

Table B4 Results: Complaints Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Complaints	4	4	0	4	0	90	100

C. MARKETING & SALES

The evaluation of standards in this business area is based on a review of company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the Company about its products. It is not typically based on sampling techniques, but can be. The areas to be considered in this kind of review include all media, written and verbal advertising and sales material.

Standard C1: All advertising and sales materials are in compliance with applicable statutes, rules and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § C Standard 1)

Test Methodology:

- Are all advertising materials in conformity with the Company's policy forms, and in compliance with applicable statutes, rules and regulations?
- Does the Company approve producer sales materials and advertising? [*W. Va. Code §33-11-4*]

Examiner Observations: The Company has no advertising or sales materials.

Examiner Recommendations: None

Results: Compliant

Standard C2: The Company's internal producer training materials are in compliance with applicable statutes, rules, and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § C Standard 2)

Test Methodology:

- Are all producer training materials in compliance with state statutes, rules and regulations?
- Are there any references to employing unfair discriminations tactics or avoiding statutory compliance? [*W. Va. Code §33-11-4*]

Examiner Observations: The Company has no formal training materials. Underwriting manuals are provided to producers. Agent training includes direction on the use of underwriting guidelines and policy rating. Review of the manuals found no references to employing unfair discriminations tactics. No exceptions were noted.

Examiner Recommendations: None

Results: Compliant

Standard C3: Company communications to producers are in compliance with applicable statutes, rules, and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § C Standard 3)

Test Methodology:

- Is the Company in compliance with the prohibitions on misrepresentations? It is concerned with representations made by the Company to its producers other than in a training mode.

Examiner Observations: Communications between the Company and its agents are normally accomplished through emails and over telephone. The examiners reviewed the written communications, including those found in the policy files, for adherence to both the West Virginia Unfair Trade Practices Act and the West Virginia Unfair Claims Settlement Practices Act. No exceptions were noted.

Examiner Recommendations: None

Results: Compliant

D. PRODUCER LICENSING

The evaluation of standards is based on a review of WVOIC records and company responses to information requests, questions, interviews, and presentations made to the examiners. This portion of the examination is designed to test the Company's compliance with West Virginia producer licensing laws and rules.

Standard D2: The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken. (2015 NAIC Market Regulation Handbook Chapter 16, § D Standard 2)

Test Methodology:

- Are the producers properly licensed and appointed for business solicited in West Virginia?
- Does the Company appoint the producer within fifteen (15) days of the date the producer submits their first application to the Company?
- Are all applications signed by properly licensed and appointed agents? [*W. Va. Code §33-12-18*]

Examiner Observations: Four (4) new business policies applications were signed by licensed agents who were not appointed by Safe Insurance Company. There were actually three agents

that were not appointed. One of the three submitted two applications. The Company agreed, and stated that "Each agency involved has licensed agents who are to handle Safe business and each application should have been returned for proper signature."

Examiner Recommendations: It is recommended that all agents be properly appointed by the Company per W. Va. Code §33-12-18.

Results: Predominately Compliant

Table D2 Results: Producer Licensing Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	114	0	110	4	90	96

Standard D3: Termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable. (2015 NAIC Market Regulation Handbook Chapter 16, § D Standard 3)

Test Methodology:

- Does the Company notify the Commissioner's Office (on a form prescribed by the WVOIC) within thirty (30) days of terminating the producer's authority?
- Is the producer notified simultaneously? [W. Va. Code §33-12-25(d)]
- Does the Company notify the Commissioner's Office if the termination is for cause per W.Va. Code §33-12-25?

Examiner Observations: The entire population of fifty-nine (59) terminated producers was reviewed. The Company produced copies of the termination letters. The Company terminated one (1) producer for cause during the examination period. All met the required time frames.

Table D3 Results: Terminated Producers Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Terminated Producers	59	59	0	59	0	90	100

Examiner Recommendations: None

Results: Compliant

Standard D4: The Company's policy of producer appointments and terminations does not result in unfair discrimination against policyholders. (2015 NAIC Market Regulation Handbook Chapter 16, § D Standard 4)

Test Methodology:

- Does the appointment or termination of producers result in unfair discrimination against policyholders?
- Does the termination leave any territories understaffed?

Examiner Observations: The Company's agents can be found throughout the State of West Virginia. The Company products are marketed in under-served areas. No unfair discrimination against policyholders can be inferred by the Company's producer appointment and termination records.

Examiner Recommendations: None

Results: Compliant

E. POLICYHOLDER SERVICE

The evaluation of standards in this business area is based on review of company responses to information requests, questions, interviews, and presentations made to the examiner and file sampling during the examination process. The policyholder service portion of the examination is designed to test a company's compliance with statutes regarding notice/billing, delays/no response, premium refund and coverage questions.

Standard E2: Policy issuance and insured requested cancellations are timely. (2015 NAIC Market Regulation Handbook Chapter 16, § E Standard 2)

Test Methodology:

- Was the policy issued timely?
- Any excessive paperwork required? *[no statutory requirement]*

Examiner Observations: A sample of new business policy files were reviewed to determine the time required by the Company to issue policies. The date the application was signed by the producer and the date the Company issued the policy were captured. The Company issued the policy within fifteen (15) days for the entire sample tested. No exceptions were noted.

A sample of insured requested cancellation was reviewed to determine if the cancellations were timely and did not require excessive paperwork. All policies were cancelled timely.

Examiner Recommendations: None

Results: Compliant

Table E2a Results: Policyholder Service Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Table E2b Results: Policyholder Service Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Cancelled by insured	471	86	0	86	0	90	100

Standard E7: Unearned premiums are correctly calculated and returned to the appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § E Standard72)

Test Methodology:

- Where the unearned premiums calculated correctly?

Examiner Observations: The filed policy forms state that policies cancelled by policyholder should be calculated using a short-rate. The Company used a pro-rata calculation. It appears that the Company having filed no rating methodology for the "short rata" calculation, has liberalized it. Any unearned premiums were returned timely.

Examiner Recommendations: None

Results: Compliant

F. UNDERWRITING & RATING

The evaluation of standards in this business area is based on review of company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. Testing is concerned with compliance issues.

Standard F1: The rates charged for the policy coverage are in accordance with filed rates (if applicable) or the Company rating plan. (2015 NAIC Market Regulation Handbook Chapter 16, § F Standard 1)

Test Methodology:

- Was the premium calculated correctly? [W. Va. Code §33-11-4(7)(c)]
- Were the underwriting guidelines followed?

Examiner Observations: Although Farmers Mutual Fire Insurance Companies are not required to file rates with the Commissioner's Office, rates should not be unfairly discriminatory. Wide scale application of incorrect rates by a company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a company is engaged in unfair competitive practices.

A sample of new issue policy files was reviewed and the premium re-calculated to determine if the Company was following their underwriting guidelines. The Company consistently followed its underwriting guidelines. There were no exceptions.

Examiner Recommendations: None.

Results: Compliant

Table F1 Results: Underwriting & Rating Practices Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F2: All mandated disclosures are documented and in accordance with applicable statutes, rules and regulations. (2015 NAIC Market Regulation Handbook Chapter 16, § F Standard 2)

Test Methodology:

- Were quotations reasonable and accurate with mandated disclosures as applicable?

Examiner Observations: It is necessary to provide insured's with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions. Concerns tested included accuracy of producer quotations, including extended and supplemental coverages. Quotations were reasonable and accurate rate changes were made at renewal dates and insureds were provided adequate advance notice. New applications were reviewed with the types of coverages selected and the premium calculated using appropriate company rating materials. Coal mine subsistence was offered and the applicant signed to accept or reject. No exceptions were noted.

Examiner Recommendations: None.

Results: Compliant

Table F2 Results: Underwriting & Rating Practices Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F3: Company does not permit illegal rebating, commission-cutting, or inducements. (NAIC Market Regulation Handbook Chapter 16, § F Standard 3)

Test Methodology:

- Was there any form of unfair discrimination found in the form of illegal rebating, commission-cutting, or other illegal inducements? [W. Va. Code §33-11-4(8)]

Examiner Observations: A review of new issue policy files found no evidence of rebating or commission-cutting. No exceptions were noted.

Examiner Recommendations: None

Results: Compliant

Table F3 Results: Underwriting & Rating Practices Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F4: The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations, and Company guidelines in the selection of risks. (2015 NAIC Market Regulation Handbook Chapter 16, § F Standard 4)

Test Methodology:

- Is the Company following its underwriting guidelines?
- Do those guidelines conform to any applicable statutes, rules and regulations?
- Any inconsistency in handling of rating or underwriting practices?

Examiner Observations: A sample of new issue policy files was reviewed to ensure underwriting information used to make decisions was not unfairly discriminatory. It was determined that the Company was selecting risks and assigning rates according to company guidelines and no unfair discriminatory practices were detected. It was determined the Company was selecting risks and assigning rates according to company guidelines and no unfair discriminatory practices were detected.

Examiner Recommendations: None

Results: Compliant

Table F4 Results: Underwriting & Rating Practices Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F7: Rejections and declinations are not unfairly discriminatory. (2015 NAIC Market Regulation Handbook Chapter 16, § F Standard 7)

Test Methodology:

- Does the Company provide valid reasons for rejection/declinations when required?
- Does the Company monitor the agency rejections/declinations for appropriate practices?

Examiner Observations: Farmers' Mutual Fire Insurance Companies are not subject to W.Va. Code §33-17A-6; however, they are subject to W.Va. Code §33-11-4(7)(c). Consistent application of the Company's underwriting rules is the primary method used to avoid unfair discrimination. There were no declinations during the examination period

Examiner Recommendations: None

Results: Compliant

Standard F9: Rescissions are not made for non-material misrepresentation.

Test Methodology:

- Is the decision to rescind the policy made in accordance with applicable statutes, rules, and regulations?
- Do the rescinded policies indicate a trend toward post-claim underwriting practices?

Examiner Observations: No post underwriting practices were found. All rescinded policies were reviewed and no exceptions were found. Those shown as "N/A" clerical error were clerical errors such as entering a wrong effective date.

Examiner Recommendations: None

Results: Compliant

Table F9 Results: Rescissions Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Rescissions	28	28	22	6	0	90	100
Twenty-two N/A due to clerical error or non-pay							

Standard F17: Underwriting, rating, and classification are based on adequate information developed at or near inception of the coverage rather than near expiration or following a claim. (2015 NAIC Market Regulation Handbook Chapter 17, § F Standard 8)

Test Methodology:

- Determine if the initial underwriting of a policy is based on the information obtained after a claim is submitted.

Examiner Observations: A sample of new business policy files were reviewed to determine if decisions were based on information received at inception of the policy rather than through audits or post claim. The Company uses inspections and photographs to supplement applications.

Examiner Recommendations: None

Results: Compliant.

Table F17 Results: Underwriting Information at Inception Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F18: Applications or enrollment forms are properly, accurately and fully completed, including any required signatures, and file documentation adequately supports decisions made. (2015 NAIC Market Regulation Handbook Chapter 17, § F Standard 18)

Test Methodology:

- Are applications completed and signed where required?
- Are the files properly documented?

Examiner Observations: There were no exceptions.

Examiner Recommendations: None.

Results: Compliant.

Table F18 Results: Underwriting Applications Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	114	0	114	0	90	100

Standard F22: The Company does not engage in collusive or anti-competitive underwriting practices. (2015 NAIC Market Regulation Handbook Chapter 17, § F Standard 13)

Test Methodology:

- Is there any unlawful pricing or other prohibited anti-competitive acts or practices?
- Has the Company entered into any agreements with other West Virginia companies to divide the market within West Virginia by territory?

Examiner Observations: A sample of new business policy files and underwriting guidelines did not reveal any evidence of collusive or anti-competitive practices on the part of the Company.

Examiner Recommendations: None

Results: Compliant.

Table F22 Results: Underwriting Practices Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
New business policies	1050	25	0	25	0	90	100

Standard F25: Cancellation/non-renewal notices comply with policy provisions and state laws, including the amount of advance notice provided to the insured and other parties to the contract. (2015 NAIC Market Regulation Handbook Chapter 17, § F Standard 16)

Test Methodology:

- Was the policyholder given the proper advance notice on a company initiated cancellation/non-renewal?

Examiner Observations: W. Va. Code §33-22-15(c) requires Farmers' Mutual Fire Insurance Companies to give each policyholder five (5) days' notice of cancellation. Policyholders need sufficient time in the event of a cancellation or non-renewal to replace coverage. The company's policy provisions allow for a broader notice of cancellation as outlined below.

A sample of company-initiated cancelled policy files was reviewed for compliance with W. Va. Code §33-22-15(c) and the Company's policy provisions. According to policy provisions, the Company may, within the first 60 days, cancel for any reason (and the Company gives a 30 day notice). If the policy has been in effect 60 days or more, the Company may cancel for specified reasons as listed under the Policy Conditions (Company gives at least a ten day notice). The examiners reviewed the entire population of company policy cancellations to determine if the advance cancellation notices were provided according to policy provisions. No exceptions were found.

Examiner Recommendations: None.

Results: Compliant

Table F25 Results: Underwriting Notices of Cancellation Sample

Type	Population	Sample	N/A	Pass	Fail	Standard	Compliance
Policies cancelled by company	258	84	0	84	0	90	100
Policies cancelled by Company non-pay	1326	114	0	114	0	90	100

G. CLAIMS

The evaluation of standards in this business area is based on company responses to information items requested by the examiner, discussions with company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the Company treats claimants and whether that treatment is in compliance with applicable statutes and rules.

Standard G1: The initial contact by the Company with the claimant is within the required time frame. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 1)

Test Methodology:

- Was the claimant contacted within 15 working days (or mandated emergency order timeframe) from the date of the loss notice per W.Va. Code §33-11-4(9)(b) and W. Va. Code St. R. §114-14-5.1?

Examiner Observations: The examiners reviewed a sample of paid claims and closed without payment claims. No exceptions were found.

Examiner Recommendations: None.

Results: Compliant.

Table G1 Results: Claims Initial Contact Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	93	100
Claims closed w/o payment	215	82	82	0	0	93	100

TOTALS	411	158	158	0	0	93	100
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Standard G2: Timely investigations are conducted. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 2)

Test Methodology:

- Did the investigation commence within fifteen (15) working days of any claim filed per W. Va. Code §33-11-4(9)(c) and W. Va. Code St. R. §114-14-6.2 a?
- Is the investigation continuing more than 30 calendar days? If so, was a delay letter sent within 15 working days after the 30 calendar days per W. Va. Code §33-11-4(9)(c) and W. Va. Code St. R. §114-14-6.7?
- If the investigation continued, were subsequent delay letters sent with 45 calendar days per W. Va. Code §33-11-4(9)(c) and W. Va. Code St. R. §114-14-6.7?

Examiner Observations: The examiners reviewed paid claims and closed without payment claims. No exceptions were found.

Examiner Recommendations: None.

Results: Compliant.

Table G2 Results: Claims Timely Investigation Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	93	100
Claims closed w/o payment	215	82	82	0	0	93	100
TOTALS	411	158	158	0	0	93	100

Standard G3: Claims are resolved in a timely manner. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 3)

Test Methodology:

- Did the Company deny the claim or make a written offer within ten (10) working days of completing its investigation per W. Va. Code §33-11-4(9)(c) and W. Va. Code St. R. §114-14-6.3?

Examiner Observations: The examiners reviewed a sample of paid claims and closed without payment claims. No exceptions were found.

Examiner Recommendations: None.

Results: Compliant.

Table G3 Results: Claims Resolution Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	96	100
Claims closed w/o payment	215	82	82	0	0	93	100
TOTALS	411	158	158	0	0	93	100

Standard G4: The Company responds to claim correspondence in a timely manner. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 4)

Test Methodology:

- Did the Company reply to pertinent communications from a claimant which reasonably suggests that a response is needed? [*W. Va. Code St. R. §114-14-5.3 and W. Va. Code §33-11-4(9)(b)*]

Examiner Observations: The examiners reviewed a sample of paid claims and closed without payment claims. No exceptions were found.

Examiner Recommendations: None.

Results: Compliant.

Table G4 Results: Claims Correspondence Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	196	100
Claims closed w/o payment	215	82	82	0	0	215	100
TOTALS	411	158	158	0	0	411	100

Standard G5: Claim files are adequately documented. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 5)

Test Methodology:

- Do the files contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed? [*W. Va. Code St. R. §114-14-3 and W. Va. Code §33-11-4(9) et. seq.*]

Examiner Observations: The examiners reviewed a sample of paid claims and closed without payment claims. One closed without payment claim had no denial letter in the file. It was verbally denied and not documented.

Examiner Recommendations: It is recommended that the Company fully document denied claims with proper retention of denial letters, or properly noting verbal denials.

Results: Predominately Compliant.

Table G5 Results: Claims Documentation Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	93	100
Claims closed w/o payment	215	82	81	0	1	93	99
TOTALS	411	158	157	0	1	93	99

Standard G7: Company claim forms are appropriate for the type of product. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 7)

Test Methodology:

- Are the Company claim forms appropriate?

Examiner Observations: The examiners found no exceptions to the rule.

Examiner Recommendations: None

Results: Compliant.

Table G7 Results: Claims Forms Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	93	100
Claims closed w/o payment	215	82	82	0	0	93	100
TOTALS	411	158	158	0	0	93	100

Standard G9: Denied and closed-without-payment claims are handled in accordance with policy provisions and state laws. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 9)

Test Methodology:

- Is the denial based upon specific policy provisions or exclusions?
- Is the claimant provided with a reasonable basis for the denial when required by statute or regulation? [W. Va. Code St. R. §114-14-6.5, rule defining W. Va. Code §33-11-4(9)(n)]
- Is the claimant who is neither an attorney or represented by an attorney given written notice of the statute of limitation? [W. Va. Code St. R. §114-14-6.12, rule by authority of W. Va. Code §33-2-10]

- Is the claimant given the option of contacting the Commissioner's Office and provided with its mailing address, telephone number, and website address? [W. Va. Code St. R. §114-14-6.17, rule by authority of W. Va. Code §33-2-10]

Examiner Observations: One denial letter did not state the option of contacting the Commissioner's Office and provide the contact information.

Examiner Recommendations: It is recommended that all denial letters give the option of contacting the Commissioner's Office and provided with its mailing address, telephone number, and website address per W. Va. Code St. R. §114-14-6.17.

Results: Predominately Compliant.

Table G9 Results: Claims Denied or Closed Without Payment Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Claims closed w/o payment	215	82	81	0	1	93	99

Standard G10: Cancelled checks and drafts reflect appropriate claim handling practices. (2015 NAIC Market Regulation Handbook Chapter 16, § G Standard 10)

Test Methodology:

- Do the checks include the correct payee and are they for the correct amount?
- That payment checks do not indicate the payment is "final" when such is not the case.
- That checks or drafts do not purport to release the insurer from total liability when such is not the case.

Examiner Observations: No exceptions were noted.

Examiner Recommendations: None

Results: Compliant.

Table G10 Results: Claims Payments Sample

Type	Population	Sample	Pass	N/A	Fail	Standard	Compliance
Paid claims	196	76	76	0	0	93	100

SUMMARY OF RECOMMENDATIONS

Recommendation D2: It is recommended that all agents be properly appointed by the Company per W. Va. Code §33-12-18

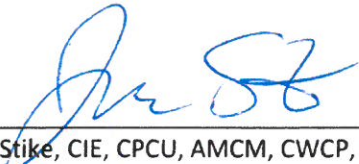
Recommendation G5: It is recommended that the Company fully document denied claims with proper retention of denial letters, or properly noting verbal denials.

Recommendation G9: It is recommended that all denial letters contain the option of contacting the Commissioner's Office and provided with its mailing address, telephone number, and website address per *W. Va. Code St. R. §114-14-6.17*.

EXAMINER'S SIGNATURE AND ACKNOWLEDGMENT

The examiner would like to acknowledge the cooperation and assistance extended by the Company during the course of the examination.

In addition to the undersigned, Letha Tate, MCM also participated in this examination.



John Stike, CIE, CPCU, AMCM, CWCP, CIPA, APA, AU, AFI, PAHM
Examiner-in-Charge

EXAMINER'S AFFIDAVIT

State of West Virginia


County of Kanawha

**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES
USED IN AN EXAMINATION**

I, John Stike, being duly sworn, states as follows:

1. I have the authority to represent West Virginia in the examination of Safe Insurance Company of West Virginia.
2. I have reviewed the examination work papers and examination report, and the examination of Safe Insurance Company of West Virginia was performed in a manner consistent with the standards and procedures required by West Virginia.

The affiant says nothing further.



John Stike, CIE, CPCU, AMCM, CWCP, CIPA, APA, AU, AFI, PAHM
Examiner in Charge

Subscribed and sworn before me by John C. Stike on this 29th day of November, 2016.



Notary Public

My commission expires: 10-11-2019 (date).

